

VZCZCXRO4725
PP RUEHDE RUEHDIR
DE RUEHKU #4554/01 3371347
ZNR UUUUU ZZH
P 031347Z DEC 06
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC PRIORITY 7753
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 KUWAIT 004554

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STATE FOR NEA/ARP, EB
TREASURY FOR DAS AHMED SAEED AND JONATHAN ROSE

E.O. 12958: N/A
TAGS: [PREL](#) [EFIN](#) [KU](#)
SUBJECT: THE CONVERSION OF KUWAIT REAL ESTATE BANK: A CASE
STUDY IN ISLAMIC BANKING

¶1. (SBU) Summary: On December 2, Ambassador met with Kuwait Real Estate Bank (KREB) Chairman Abdulwahab Mohammed Ali Al-Wazzan to discuss KREB's ongoing conversion into an Islamic bank. Two and a half years into the process, Al-Wazzan said that although the conversion has taken longer than expected, operating as an Islamic bank will ensure KREB's long-term success by allowing it to offer products and services beyond real estate, including cars and appliances. Al-Wazzan, a former Minister of Commerce and Industry, believes the conversion will receive final approval from the Central Bank of Kuwait in 1-2 months. Once approved, the Kuwait Real Estate Bank will become an Islamic bank operating under the name "Kuwait International Bank." He also expressed pride in KREB's mixed Sunni and Shia Sharia council. End summary.

Background and Rationale

¶2. (SBU) Kuwait Real Estate Bank's (KREB) conversion into an Islamic bank began almost three years ago. As Chairman of a specialized real estate bank founded in 1973, Al-Wazzan and other board members recognized that KREB's options for future expansion were limited. Noting the rapid expansion of Islamic banking worldwide, KREB conducted a feasibility study and concluded that converting to an Islamic bank offered the best options for long-term growth. As an Islamic bank, KREB will be able to offer financing for consumer products including cars and appliances in addition to real estate. Two and a half years ago, KREB applied to the Central Bank of Kuwait (CBK) for a license to operate as an Islamic bank under the name "Kuwait International Bank." To comply with the principles of Islamic banking and to satisfy CBK's requirements, which Al-Wazzan described as some of the toughest in the region, KREB had to change its policies and procedures, and re-train human resources. KREB also had to convert its traditional loans into Islamic instruments. No customers have objected to the change.

¶3. (SBU) To achieve this systemic overhaul, KREB reached out to a number of specialty consulting firms including Ernst and Young, McKinsey, Euro Money and Moodys. Ernst and Young played a key role in project management; McKinsey developed a 5-year strategy; and Euro Money and Moodys provided specialized training to some of KREB's 400 employees. Al-Wazzan added that technical assistance from Ernst and Young, which has a permanent project management team onsite, and Euro Money continues.

Key Challenges

14. (SBU) Without hesitation, Al-Wazzan said that the most difficult aspect of this conversion has been the human resource component. Although the increase in the range of services that KREB will offer as an Islamic bank will not require an increase in personnel, it does require employees with specialized knowledge in the area of Islamic banking. There was already a shortage of skilled staff with two Islamic banks, Kuwait Finance House and Boubyan Islamic Bank, operating in Kuwait. The increased demand caused by KREB,s entry into the sector has further exacerbated this shortage and banks are increasingly recruiting from well-established firms abroad. Al-Wazzan, for example, recruited KREB,s current Pakistani/British GM from a British bank that had stationed him in Hanoi.

15. (SBU) Al-Wazzan also noted that integrating the new policies and procedures into their IT was also more challenging than expected. Fortunately, KREB,s IT Manager is knowledgeable about both Islamic banking and IT integration.

"Mixed" Sharia Council

16. (SBU) CBK conducts periodic reviews of KREB's progress to ensure that all policies and procedures are in compliance with CBK regulation of Islamic banking. KREB has its own Sharia council which evaluates and recommends internal policies. This council is comprised of five Islamic banking specialists, three Sunni and two Shia. This integrated approach, said Al-Wazzan, is not the norm as most Islamic banking establishments are dominated by one sect. Despite

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their initial misgivings about the wisdom of this approach, he continued, the five council members have worked well together. Al-Wazzan explained that the two sects have almost "95% in common in their approach to Islamic banking" and this type of joint effort should be the norm as it helps communication and understanding. However, he said that most banks, including Kuwait Finance House and Investment Dar, continue to employ Muslims of one sect almost exclusively. If there are non-Muslims, he said, they are few and far between.

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